



News Release

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ENHANCED SCHEDULE K-1 COMPLIANCE EFFORT IN EFFECT

WASHINGTON – The Internal Revenue Service has launched an enhanced compliance effort to encourage taxpayers to properly report partnership, S corporation or trust income or losses on their individual tax returns. Some taxpayers may soon receive notices requesting an explanation for a discrepancy.

The IRS earlier this year began matching information reported on Schedule K-1 with income or losses reported on Form 1040 and other schedules. The IRS will send notices to taxpayers when there is a mismatch in information provided on tax year 2000 returns. In many cases, the taxpayer or tax professional can resolve the issue with a letter or phone call.

“One of the most powerful tools that we use to ensure compliance is matching information received from employers, financial institutions and other businesses with information reported by taxpayers,” said Charles O. Rossotti, IRS commissioner. “Third parties report approximately 80 percent of the personal income received by taxpayers. An important compliance strategy is to use this data as effectively as possible.”

Partnerships, S corporations and trusts are not taxable entities. Taxes on their net profits or losses are levied, in general, directly on partners, shareholders or beneficiaries. These flow-through entities must file information returns with the IRS and also must provide to members or shareholders a Schedule K-1, which details an individual's share of profits, losses, deductions or credits.

The IRS processed more than 18 million Schedule K-1 forms for tax year 2000, recording \$1.2 trillion in income to partners, stockholders and beneficiaries. A computer program matches Schedule K-1 information. To date, some 65,000 notices have been issued in which the computer found a mismatch between the information return and the individual's tax return.

“The IRS is committed to refining the process. We will continue to work with the practitioner community to provide on-going status reports and to solicit feedback for program enhancements,” said Joe Kehoe, commissioner of the Small Business and Self-Employed Division.

In an effort to perfect the matching program, IRS examiners are manually screening returns to ensure consideration of issues such as passive loss limitations and income or losses reported on Schedule E. A notice is generated when the examiners are unable to determine the cause of the discrepancy.

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The Schedule K-1 forms are among the more than 1.4 billion information returns that the IRS processes. The Schedule K-1 matching program is more complex than the matching program for Form W-2 and Form 1099 documents because a K-1 lists multiple sources of income such as interest, dividends, capital gains and losses. The K-1 information is matched along with other information documents to ensure that all types of income are documented.

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